

Message Text

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PAGE 01 KUWAIT 01632 01 OF 02 310657Z
ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 TRSY-02 OMB-01 SSM-03 IO-13 XMB-02
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P R 291336Z MAR 77
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC PRIORITY 7615
INFO AMEMBASSY ABU DHABI
AMEMBASSY BEIRUT
AMEMBASSY CAIRO
AMEMBASSY DAMASCUS
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY TRIPOLI

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 1632

E.O. 11652: GDS
TAGS: EAID, LE, KU
SUBJECT: ARAB AID TO LEBANON

1. SUMMARY: KFAED DIRECTOR GENERAL AL-HAMAD DESCRIBED
MARCH 28 STATUS OF ARAB PLANNING FOR ASSISTANCE TO LEBANON.
HE PARTICIPATED AS GOK'S REP IN MARCH 21 RIYADH
MEETING WHICH REACHED PRELIMINARY AGREEMENT ON PLAN TO
PROVIDE EARLY HUMANITARIAN ASSISTANCE WITH TARGET OF
500 MILLION LEBANESE POUNDS (LL) TO BE FOLLOWED BY LL6-7
BILLION CREDITS FOR RECONSTRUCTION AND REHABILITATION OF INFRA-
STRUCTURE AND PRIVATE SECTOR INDUSTRY. DETAILS OF
LONGER-TERM AID REMAIN TO BE DEVELOPED BUT AL-HAMAD
FORESEES LEBANESE RECONSTRUCTION BOARD AS
CHANNEL FOR CREDITS. APPROPRIATE CONTROLS WILL BE
ESTABLISHED BECAUSE OF ARAB CONCERNS OVER PROPER USE
OF MONEY. HUMANITARIAN ASSISTANCE (SAUDI ARABIA AND
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PAGE 02 KUWAIT 01632 01 OF 02 310657Z

KUWAIT WERE PLEDGING LL80 AND LL30 MILLION RESPECTIVELY)
WOULD BE PROVIDED SHORTLY, BUT RECONSTRUCTION CREDITS
WOULD PROBABLY NOT BE AVAILABLE UNTIL END OF YEAR. END
SUMMARY.

2. HAVING LEARNED THAT DIRECTOR GENERAL OF KUWAIT FUND
FOR ARAB ECONOMIC DEVELOPMENT, ABDUL LATIF AL-HAMAD,

APPARENTLY TRAVELLED TO RIYADH MARCH 21 TO DISCUSS ARAB AID TO LEBANON, I CALLED ON HIM MARCH 28 TO DISCUSS STATUS OF ARAB PLANS TO PROVIDE SUCH ASSISTANCE. AL-HAMAD SAID MY INFORMATION WAS CORRECT, AND, INDEED, HE HAD EARLIER VISITED BEIRUT TO TALK TO PRESIDENT SARKIS AND PRIME MINISTER AL-HOSS AND THEN RIYADH TO MEET WITH SAUDI FINANCE MINISTER ABU AL-KHAYL. HIS DISCUSSION WITH AL-KHAYL RESULTED IN CONVENING MARCH 21 RIYADH MEETING ATTENDED BY SAUDI FUND HEAD JALLAL, A SAUDI MINFIN REP, AND A REP FROM QATAR (UAE REP DID NOT SHOW), AS WELL AS AL-HAMAD.

3. AL-HAMAD EXPLAINED HIS INVOLVEMENT, ALTHOUGH HE IS NOT A GOK OFFICIAL, AS RESULTING FROM LACK OF GOVERNMENT ABILITY TO FOCUS ON THIS SITUATION AND TO DEFINE THE PROBLEM AND NEEDED ACTION. HE WAS MUCH CONCERNED WITH EFFECT OF DELAY IN PROVIDING SUCH ASSISTANCE TO LEBANON AND ALSO BELIEVED THAT TECHNICAL RESOURCES AVAILABLE TO KFAED COULD BE HELPFUL IN DEALING WITH THIS PROBLEM.

4. ACCORDING TO AL-HAMAD, MARCH 21 RIYADH MEETING RESULTED IN PROVISIONAL AGREEMENT TO DEVELOP IN FURTHER DETAIL A TWO-PRONGED PROGRAM FOR LEBANESE ASSISTANCE. INITIALLY, A CALL WOULD BE ISSUED TO ARAB STATES AND OTHER COUNTRIES WISHING TO PARTICIPATE, TO MAKE DIRECT CONTRIBUTIONS TO LEBANESE GOVERNMENT FOR HUMANITARIAN ASSISTANCE. THESE FUNDS WOULD BE DESIGNED TO HELP LIFE RETURN TO NORMAL BY PROVIDING QUICKLY FUNDS NEEDED TO REPAIR HOUSING AND REESTABLISH SMALL BUSINESSES. TOTAL AMOUNT
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PAGE 03 KUWAIT 01632 01 OF 02 310657Z

TO BE SOUGHT FOR THIS PURPOSE WOULD BE LL 500 MILLION (KUWAIT BANK EXCHANGE RATE IS \$1.00 - LL2.875). SAUDI ARABIA HAS ALREADY AGREED TO CONTRIBUTE LL 80 MILLION AND ON MARCH 27 GOK MADE DECISION TO CONTRIBUTE LL30 MILLION, FORMAL APPROVAL FOR WHICH WILL BE GIVEN AT APRIL 3 CABINET MEETING. I OBSERVED THAT U.S. HAD MADE EARLY CONTRIBUTION OF \$20 MILLION IN FOOD AND THEN ADDED FURTHER AMOUNT OF 30 MILLION FOR HUMANITARIAN PURPOSES DESCRIBED ABOVE. AL-HAMAD WELCOMED THIS PROMPT US ASSISTANCE (HE WAS APPARENTLY UNAWARE OF ITS EXTENT).

5. FOLLOWING THIS INITIAL STEP, AL-HAMAD SAW REQUIREMENT FOR ARAB GOVERNMENTS TO PROVIDE SOME LL6 TO 7 MILLION TO LEBANON IN THE FORM OF CREDITS TO BE USED FOR RECONSTRUCTION AND REHABILITATION OF INFRASTRUCTURE AND PRIVATE SECTOR INDUSTRY. HE WAS NOT TOO CLEAR ON HOW THESE CREDITS WOULD BE RAISED AND MANAGED. HIS THINKING WAS THAT THEY NEED NOT BE COLLECTED INTO A FUND, BUT THAT A SPECIAL COMMITTEE LED BY THE IMF SHOULD HAVE SOME ROLE IN MONITORING

ITS USE. THE CREDITS THEMSELVES SHOULD HAVE SOME ROLE
IN MONITORING ITS USE. THE CREDITS THEMSELVES SHOULD BE
MADE AVAILABLE TO THE LEBANESE RECONSTRUCTION BOARD. BOARD
WOULD MAKE FUNDS AVAILABLE TO LEBANESE BANKS, PROBABLY
THROUGH THE CENTRAL BANK, WHICH WOULD PRESUMABLY REVIEW
USES TO WHICH BANKS PUT THIS MONEY.

6. AL-HAMAD EXPLAINED THAT DONOR COUNTRIES HAD TO BE
ASSURED THAT ADEQUATE CONTROLS OVER THE EMPLOYMENT OF THESE
CREDITS NEEDED TO BE EXERTED, GIVEN THE SUSPECT REPUTATION
OF LEBANESE BUSINESSMEN. HE HAD MADE THIS CLEAR TO AL-HOSS,
WHO HAD AGREED THIS WAS NECESSARY. MOREOVER, THE THOUGHT
WAS THAT THESE FUNDS WOULD BE MADE AVAILABLE THROUGH
THE IMF COMMITTEE OVER A PERIOD OF TWO YEARS OR LONGER,
WHICH WOULD PROVIDE AN ADDITIONAL OPPORTUNITY TO OVERSEE
THE COURSE OF LEBANESE RECOVERY. (AL-HAMAD SAID HE WAS
DESPATCHING KFAED DIRECTOR OF FINANCE AL-HANIFI TO
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PAGE 04 KUWAIT 01632 01 OF 02 310657Z

WASHINGTON FIRST WEEK OF APRIL TO DISCUSS THIS WITH IMF.)
AL-HAMAD INDICATED THAT THESE WERE PRELIMINARY IDEAS WHICH

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PAGE 01 KUWAIT 01632 02 OF 02 291629Z
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P R 291336Z MAR 77
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C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 1632

NEEDED TO BE DEVELOPED FURTHER AND THEN BE APPROVED BY DONOR GOVERNMENTS. WHILE ALL ARAB GOVERNMENTS WOULD BE ENCOURAGED TO CONTRIBUTE, THE BULK OF THE MONEY WOULD HAVE TO COME FROM THE USUAL GULF FOUR (SAUDI ARABIA, KUWAIT, UAE AND QATAR), ALTHOUGH HE HOPED LIBYA MIGHT BE PERSUADED TO KICK IN, TOO.

7. I TOLD AL-HAMAD I HAD UNDERSTOOD THERE WAS SOME RELUCTANCE ON THE PART OF KUWAIT, AND POSSIBLY THE OTHER GULF COUNTRIES, TO PROVIDE AID TO LEBANON BEFORE THE POLITICAL SITUATION THERE WAS NORMALIZED. AL-HAMAD SAID THAT, WHILE THE ARAB STATES WERE CONCERNED ABOUT THE POLITICAL SITUATION, CERTAIN ELEMENTS OF THIS ASSISTANCE, SUCH AS THAT FOR HUMANITARIAN PURPOSES, COULD NOT AWAIT THE FINAL SETTLEMENT OF LEBANON'S INTERNAL TROUBLES. IN FACT, ITS PROVISION COULD HELP ACCELERATE THE NORMALIZATION PROCESS, SINCE ITS AIM WAS TO RESTORE THE NORMAL PATTERN OF DAIL LIFE. MOREOVER, CONFIDENTIAL

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PAGE 02 KUWAIT 01632 02 OF 02 291629Z

THE LONGER TERM ASPECT OF THE ASSISTANCE PROGRAM DESCRIBED ABOVE WOULD GIVE DONORS SUFFICIENT FLEXIBILITY TO WITHHOLD FUNDS IF THE POLITICAL SITUATION DETERIORATED AGAIN.

8. I COMMENTED THAT HIS REPORT ON ACTION REGARDING THE LEBANESE ASSISTANCE PROGRAM SOUNDED ENCOURAGING AND ASKED WHAT SORT OF TIMING WAS ENVISAGED FOR ITS IMPLEMENTATION. AL-HAMAD FELT THAT THE FIRST STEP OF PROVIDING HUMANITARIAN ASSISTANCE WOULD GET UNDERWAY VERY SHORTLY, WHILE THE ARRANGEMENT FOR CREDITS WOULD TAKE LONGER. HE HOPED TO SEE THE PLAN DEVELOPED BY EARLY SUMMER, BUT DID NOT THINK RECONSTRUCTION CREDITS WOULD BE AVAILABLE UNTIL TOWARD THE END OF THE YEAR. MAESTRONE

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